

Message Text

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ACTION EB-07

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AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

UNCLAS BRASILIA 3020

E.O. 11652: N/A

TAGS: BR, ATRD, EAGR

SUBJECT: NEWSPAPER ROUNDUP ON COFFEE

REF: LONDON 5841

1. SUMMARY. OVER THE PAST FEW MONTHS MAJOR NEWSPAPER HAVE STRONGLY AND BITTELY CRITICIZED GOB'S COFFEE POLICY: THE GOB'S UNWILLINGNESS TO RAISE COFFEE SUPPORT PRICES, THE "DISASTROUS" MARKETING POLICY OF PRICE CUTTING TO REGAIN BRAZIL'S MARKET SHARE, AND THE VARIOUS ERRATIC CHANGES IN POLICIES MADE BY THE OFFICIAL BRAZILIAN COFFEE INSTITUTE (IBC). REPORTEDLY CONCERN IN THE GROWING REGIONS HAS LED TO THE REDUCTION OF THE HARVESTED AREA. WHILE THE PAPERS SEE GOOD PROSPECTS FOR A NEW INTERNATIONAL AGREEMENT, THEY NOTE SOME CONCERN ABOUT (A) WHAT WOULD BE BRAZIL'S SHARE GIVEN PRESSURE FROM OTHER PRODUCING COUNTRIES, AND (B) THE DESIRE OF CONSUMING COUNTRIES TO MAINTAIN THE CURRENT LOW PRICES. END OF SUMMARY.

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2. PRICES. BRAZIL'S MAJOR NEWSPAPER, "O JORNAL DO

BRASIL" AND "O ESTADO DE SAO PAULO" HAVE ATTACKED THE IBC FOR HAVING PERMITTED SUPPORT PRICES AND PROFITS, IN REAL TERMS, TO FALL DURING THE LAST YEAR. "O ESTADO" CLAIMED THAT PROFITS/BAG FELL BY 50 PERCENT IN THE LAST 10 MONTHS OF 1974. LOW IBC SUPPORT PRICES, INSUFFICIENT CREDIT, AND COST INCREASES IN FERTILIZER ARE BLAMED AS CAUSES OF THE LOWER EXPECTED YIELDS THIS YEAR AND OF THE "ERRADICATION" OF SOME PLANTATION IN PARANA AND SAO PAULO STATES.

3. MARKETING. CRITICS OF THE IBC'S MARKETING POLICIES WOULD AGREE WITH PRESIDENT GEISEL'S REPORTED REMARK RECENTLY THAT BRAZIL KNOWS HOW TO PRODUCE COFFEE BUT NOT HOW TO MARKET IT. "O JORNAL" HAS COMMENTED CRITICALLY THAT THE IBC'S MARKETING POLICIES HAVE RESULTED IN A DROP IN BRAZIL'S WORLD MARKET SHARE, WHEN THE IBC WITHHELD PART OF THE 1974 CROP IN AN EFFORT TO STABILIZE PRICES; AND THEN IN DOWNWARD PRESSURE ON WORLD PRICES WHEN THE IBC RESORTED TO COMPETITIVE PRICE CUTTING IN AN ATTEMPT TO RESTORE BRAZIL'S MARKET SHARE.

4. ACCORDING TO "O JORNAL," THE AUGUST 1974 SUPPLY CONTRACTS PROVIDED THAT IBC WOULD GRANT A "PREMIUM" TO IMPORTERS SO THAT BRAZILIAN COFFEE WOULD BE COMPETITIVE WITH CENTRAL AMERICA AND AFRICAN COFFEE. THE BASIC MISTAKE, AS "O JORNAL" PUT IT, WAS THE LINKAGE OF BRAZILIAN COFFEE PRICES TO COMPETITORS' PRICES FOR THE PURPOSE OF ESTABLISHING "PREMIUM" CONCESSIONS. AS A CONSEQUENCE, FOREIGN IMPORTERS CAN NOW EASILY MANAGE WITHER TO GET A HIGHER "PREMIUM" OR TO DEPRESS BRAZILIAN COFFEE PRICES, JUST BY PUTTING DOWNWARD PRESSURES ON WEAL COMPETITING MARKETS OR, ELSE, ON COMMODITIES EXCHANGES.

5. COFFEE AGREEMENT . "O ESTADO" HAS CALLED FOR BRAZIL TO REASSERT ITS WORLD MARKET LEADERSHIP BY REINSTATING THE MULTINATIONAL COFFEE CORPORATION "CAFE MUNDIAL" -- WITH THE COOPERATION OF COLOMBIA, IVORY COAST AND ANGOLA -- IN ORDER TO RAISE WORLD PRICES. CALLING THIS A FIRST STEP TOWARD RENEGOTIATING THE COFFEE AGREEMENT -- A STEP THE US IS WILLING TO SUPPORT -- "O ESTADO" HAS CONSTANTLY REITER-
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ATED THE NEED TO INDEX COFFEE PRICES TO THE US WHOLESALE PRICE INDEX, WHICH "WOULD MAKE SENSE BECAUSE THE CONTRACTS ARE IN US DOLLARS". "O JORNAL" HAS EXPRESSED CONCERN THAT IN THE RENEGOTIATION PROCESS OTHER PRODUCERS WILL SEEK TO MAINTAIN THE CURRENT LOW PRICES. BLAME FOR THE LOW PRICES, ACCORDING TO "GOB SOURCES" QUOTED "O JORNAL", FOES TO HEAVY IMPORT CUTBACKS BY CONSUMING COUNTRIES WANTING TO OBTAIN LOW AGREEMENT PRICES.

6. "O ESTADO" SEES THE POSTPONEMENT OF THE MEETING OF PRODUCING COUNTRIES UNTIL MARCH 1976 AS A SSafe INDICATION THAT THE AGREEMENT CAN BE RENEWED AND ENFORCED. " O ESTADO" ALSO SEES US CONGRESSIONAL SUPPORT BUILDING FOR AN AGREEMENT, DUE TO AN AWARENESS OF COFFEE'S IMPORTANCE AND TO THE POLITICAL INFLUENCE OF HUGE IMPORTING ROASTING COMPANIES IN THE US. ACCORDING TO "O ESTADO", THE AGREE-MENT WOULD: (A) GRANT BRAZIL AN EXPORT QUOTA OF ABOUT 17 MILLION BAGS, (B) EXCLUDE THE EXISTING DIFFERENCE BETWEEN "TRADITIONAL" AND "NEW MARKETS", AND (C) SET UP A 10 MILLION BAG REGULATORY STOCK FINANCED BY EXPORTING AND IMPORTING COUNTRIES.

7. GOB RESPONSE TO CRITICISM. THE GOB HAS REACTED SHARPLY TO PRESS AND OTHER CRITICISM, INCLUDING AN UNUSUAL APRIL 2 TV BROADCAST ON COFFEE WITH MINISTER OF INDUSTRY AND COMMERCE GOMES AND THE IBC PRESIDENT. GOMES POINTED OUT THAT: "(A) BRAZIL ALONE CANNOT KEEP PRICES FROM DECLINING AND IT IS NOT BRAZIL'S DUTY TO "HOLD THE PRICE UMBRELLA" FOR OTHER EXPORTING COUNTRIES BY STOCKPILING, FINANCING STOCKS, AND SUPPORTING THE ECONOMIC AND POLITICAL PEACE OF 20 AFRICAN AND ANTILLEAN COUNTRIES; (B) OTHER PRODUCERS DID NOT COMPLY WITH THE AGREED-UPON WITHHOLDING RATE OF 20 25 PERCENT OF THE CROP: AND (C) BRAZIL WILL SELL AS MUCH AS POSSIBLE AT THE BEST POSSIBLE PRICES EVEN IF MARKET PRICES DROP. HE ALSO STATED THAT THE IMPACT OF THE INTERNATIONAL ECONOMIC CRISIS ON THE DOMESTIC ECONOMIES OF OTHER PRODUCERS WILL OVERCOME THE RELUCTANCE OF SOME OF THEM TO PARTICIPATE IN A NEW AGREE-MENT.

AS FOR THE "SPECIAL EXPORT CONTRACTS", GOMES SAID THAT BRAZIL LOST A LARGE NUMBER OF CUSTOMERS OWING TO UNCLASSIFIED

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THE GOB DISCOUNT POLICY, SINCE DISCOUNTS WERE NOT BEING GRANTED TO ALL PURCHASERS, AS IS HAPPENING NOW. HE SAID THAT THE PROFITS OF SEVERAL ROASTING COMPANIES IN IMPORTING COUNTRIES WERE DIRECTLY CONNECTED WITH THE DIS-COUNT GRANTED BY THE GOB AND THOSE COMPANIES ARE UNHAPPY NOW WITH GOB'S LEVELLING OFF OF DISCOUNTS. THE MINISTER ADDED, HOWEVER, THAT "THE SPECIAL CONTRACTS" POLICY SHOULD BE REPLACED BY ANOTHER TYPE OF OPERATION BECAUSE BRAZIL'S WORLDWIDE SHARE HAS DECREASED UNDER THIS POLICY. WHILE ELABORATING ON THIS ISSUE, GOMES DISCLOSED THAT BRAZIL LOST US\$200 MILLION IN REVENUES IN 1973 RPT 1973 BECAUSE OF DISCOUNTS GRANTED TO COFFEE IMPORTERS UNDER "SECREAT SPECIAL CONTRACTS".

8.FOLLOWING THE BROADCAST, " O ESTADO" COMMENTED THAT

GOMES' STATEMENTS REFLECT A SHOCKING UNAWARENESS OF THE COFFEE SITUATION, INCLUDING THE EFFECTS OF LOWERING PRICES. "O ESTADO" ALSO POINTED OUT THAT THE "SECRET SPECIAL EXPORT CONTRACTS" WERE WELL PUBLICIZED IN MAJOR COFFEE TRADING CITIES. "O JORNAL" STRONGLY CRITICIZED THE MINISTER'S COMMENTS AND BRAZIL'S PRICE COMPETITIVENESS POLICY WHICH IS THE SHORTEST WAY OF "LOSING THE CONFIDENCE OF OTHER PRODUCERS WITHOUT HAVING YET GAINED THAT OF CONSUMERS".
CRIMMINS

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